



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
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WASHINGTON, DC 20350-1000

AUG 19 2002

MEMORANDUM FOR DISTRIBUTION

Subj: CLARIFICATION OF SECNAVINST 5200.35D REQUIREMENTS

Ref: (a) SECNAVINST 5200.35D
(b) GAO AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," of Nov 99

Encl: (1) Clarification of MCP Requirements

Reference (a) provides the policy for the Department of the Navy (DON) Management Control Program (MCP). While conducting MCP training, my financial operations staff discovered requirements of reference (a) were interpreted inconsistently across the Department. Consequently, I have directed my staff to revise reference (a) in order to minimize confusion. The revision of the instruction will update the program requirements in accordance with reference (b), as well as clarify reporting requirements.

To assist commands and activities in operating their MCPs more effectively, enclosure (1) provides clarification of the current program and reporting requirements as contained in reference (a). If you have any questions, please contact Ms. Lessie Turner, (202)685-6738, DSN 325-6738, or e-mail address turner.lessie@fmo.navy.mil.

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Clarification of MCP Requirements

The DON MCP is the organizational structure, operating procedures and administrative practices adopted by all levels of management to provide reasonable assurance that programs and administrative activities are effectively carried out and work to accomplish the organization's mission. It is not intended to be a stand-alone process, but should be integrated into the daily practices and culture of each command and activity. Commanders have the flexibility to operate this program as best fits their organization. However, there are minimum requirements that must be met.

The following provides clarification of those minimum requirements. The **bold** text below is the requirement as stated in the SECNAVINST 5200.35D. The "Note" that follows (in indented text), provides an explanation as to the intent of the requirement.

1. To provide for full implementation of the DON Management Control Program the following minimum requirements must be met. All DON commands/activities will establish a Management Control Program and:

Note: All DON commands/activities (not only Echelon 1 commands) shall establish a Management Control Program (MCP). An organization should clearly lay out their MCP in a management control plan. As defined in enclosure (1) of SECNAVINST 5200.35D, a management control plan is a brief, written plan (updated annually) that indicates the number of scheduled and accomplished management control evaluations, the inventory of assessable units, progress toward accomplishment of annual program requirements, the method of monitoring and evaluation, and the date the evaluation was completed. The management control plan need not be lengthy and any format may be used, so long as it addresses management control evaluations throughout the organization and conveys, with reasonable certainty, an awareness that the objectives of the MCP have been accomplished.

a. Assign responsibilities for Management Control Program management and the performance of management control evaluations.

Note: Key responsibilities of the MCP Coordinator include:

(1) ensuring that the program and reporting requirements are communicated throughout the organization and completed in a timely manner.

(2) preparing the organization's management control plan and annual management control certification statement (the latter applies only to Echelon 1 commands per reference (a)).

(3) ensuring management control reviews are performed and that corrective actions are taken by management where weak controls are identified.

(4) supporting managers of assessable units as needed.

(5) obtaining MCP training; and providing MCP training, or incorporating MCP concepts into established training, for command management and managers of assessable units.

b. Establish and maintain an inventory of assessable units, segmented along organizational, functional and/or program lines. An alternative methodology can be followed, provided equivalent results are obtained while still identifying vital management controls. The assessable unit inventory should be an aspect of every component's management control plan, and should be reviewed and updated annually.

c. Continuously monitor and improve the effectiveness of management controls associated with their programs. Monitoring efforts should be documented. This process should maximize use of existing management evaluation data and minimize creating processes or procedures solely to execute the Management Control Program. Each DON component should establish criteria for scheduling evaluations of assessable units.

Note: It is imperative that monitoring efforts be documented. Also, the intent is to utilize existing information in assessing the effectiveness of controls. This can be accomplished through management studies and reviews, program evaluations, systems reviews, audits, inspections, investigations, internal reviews, and other management information. Although the intent is to maximize use of existing management evaluation data and minimize creating processes or procedures solely to execute the MCP, evaluation of the management controls should not be limited to existing information if that information does not fully cover the applicable management controls. Whenever existing data does not provide for an adequate review of management controls, then appropriate reviews should be planned and executed that will enable management to make reasonable judgments about the effectiveness of the controls. Any review should have some reasonable cost-effective testing aspect associated with it.

d. Establish and maintain a process that identifies, reports and corrects material weaknesses. Material weaknesses may be identified from a variety of sources such as audits, inspections, investigations, management control evaluations and the like, and are to be reported to the next higher management level. Commanders/managers must take timely and effective action to correct management control weaknesses and should track progress on corrective actions.

Note: It is important to emphasize the definition of a "material weakness". A management control weakness is determined to be a "material weakness" when it involves instances of noncompliance of such importance so as to warrant reporting of the deficiency to the next higher level of command/management. That determination is a management judgment. Commanders/managers should consider reporting a weakness to the next higher level if it meets one of the following:

- (1) the participation of management at a higher level is required to help resolve the problem, or
- (2) although the problem can be resolved at the

lower level, it is serious enough, in the judgment of the commander/manager with the control weakness, to bring to the attention of higher level management as a point of information. See enclosure (1) of reference (a) for further guidance on determining whether a control weakness is material.

e. Ensure that military and civilian personnel responsible for systems of control are identified, and that performance appraisal systems for these individuals reflect any management control responsibilities, accomplishments, deficiencies and corrective actions undertaken.

Note: Commands should advocate accountability for appropriate compliance with MC guidance by encouraging performance evaluations of civilian and military managers having significant MC responsibilities.

Please be advised that this requirement will be modified in the revised instruction. In order to promote accountability, commanding officers, executive officers, and MCP Coordinators will be required to include management controls in their performance standards. In addition, other managers who have significant management control responsibilities (i.e., those responsible for assessable units) will be encouraged to include management controls in their performance standards. The following provides an example of wording that may be used in the command leadership's performance standards to address management controls:

Establishes a system of management controls, as required by the FMFIA and prescribed by GAO in its Standards for Internal Control in the Federal Government, to provide reasonable assurance that programs and functions meet mission objectives and operate effectively and efficiently.

Oversees a management control system that continuously monitors, documents, evaluates, and communicates the continuing implementation of management controls to

include assessable units, management controls assessments, training, and tracking systems, as required by SECNAV Instruction 5200.35D.

f. Ensure that subordinate commanders/managers are provided with appropriate training concerning their Management Control Program responsibilities.

Note: MCP Coordinators and their alternates must obtain MCP training. Commanders, managers, and those responsible for assessable units are encouraged to obtain MCP training.

2. Specific Management Control Program reporting requirements are as follows.

a. The ASNS, CNO, CMC, AAUSN, General Counsel, Director NCIS, AUDGENAV, CHINFO, JAG, NAVINSGEN and Chief of Legislative Affairs shall, by 15 October of each year, submit to the Secretary of the Navy (via the ASN(FM&C) Office of Financial Operations (FMO)) a management control certification statement in accordance with the guidance distributed in an annual ASN(FM&C) call letter and this enclosure. This is the statement of assurance for their chain of command or organization.

Note: All Echelon 1 commands must submit an annual management control certification statement. Since the time of publication of reference (a), additional Echelon 1 commands (e.g., DON Chief Information Officer) have been established; however, they are obviously not identified in the list of organizations required to report. Those Echelon 1 commands are required to submit a management control certification statement.

The remaining reporting requirements identified in paragraph 2 do not need clarification.